

## Message Text

CONFIDENTIAL

PAGE 01 LA PAZ 00779 312201Z

67

ACTION ARA-10

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 FEA-01 PA-01 PRS-01

USIA-06 /090 W

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P 312100Z JAN 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 5547

C O N F I D E N T I A L LA PAZ 0779

E.O. 11652: GDS

TAGS: ENRG, ETRD, BL

SUBJECT: YPFB OIL PRICE PROBLEM

REF: LA PAZ 167

1. BOLIVIAN STATE PETROLEUM COMPANY (YPFB) SOURCE TOLD ECONOFF JANUARY 31 THAT PETROLEUM BROKERS OR COMMISSION AGENTS ARE TELLING YPFB THAT NEW US TAX ON OIL IMPORTS MUST BE ABSORBED BY YPFB. SOURCE SAID PETROLEUM BROKERS HAD ENTERED INTO VERY BENEFICIAL CONTRACTS WITH YPFB WHEN PRICE WAS RISING, ENABLING YPFB TO EARN AT ABOUT HIGHEST PRICE QUOTED ANYWHERE DURING MOST OF 1974. SAID NOW, HOWEVER, BROKERS ARE ACTING TOGETHER TO PRESSURE YPFB INTO ABSORBING TOTAL AMOUNT OF TAX.

2. SOURCE SAID THAT IF BROKERS ARE SUCCESSFUL, THEY WILL FORCE PRICE TO LEVEL THAT WILL BE POLITICALLY DIFFICULT, BECAUSE IT WILL BE LOWER THAN "ARABIAN PRICE." ECONOFF RECALLED THAT ARABIAN LIGHT "REFERENCE" PRICE IS ABOUT US \$10.15 PER BARREL AND ASKED HOW THAT TRANSLATED INTO BOLIVIAN PRICE. SOURCE SAID PREMIUM FOR GEOGRAPHIC LOCA-  
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PAGE 02 LA PAZ 00779 312201Z

TION AND LIGHTER, MORE SULPHUR FREE BOLIVIAN OIL WOULD PUT

BOLIVIAN PRICE AT ABOUT US\$12.65 PER BARREL WHEN ARABIAN PRICE AT US \$10.15, BUT THAT HE REALIZED AVERAGE EFFECTIVE PRICE ON MID-EAST OIL STILL WELL BELOW US\$10.15.

3. SOURCE SAID RECENT AUCTION (REFTEL) HAD FAILED BECUASE ONE BROKER HAD WITHDRAWN THE HIGH BID. (COMMENT: ON BASIS THAT AUCTION, REMAINING BIDS WOULD HAVE PLACED PRICE AT ABOUT US \$12.50 PER BARREL BEFORE KNOWLEDGE OF USG INTENTION PLACE US \$3.00 PER BARREL TAX ON OIL IMPORTS. IT MAY BE INFERRED THAT BROKERS NOW ATTEMPTING OBTAIN YBFB OIL FOR ABOUT US\$9.50 PER BARREL.) SOURCE SAID YPFB WILLING SELL OIL AT US \$10.00 PER BARREL IF IT HAD TO, BUT GOB WOULD HAVE GREAT DIFFICULTY WITH SELLING OIL AT "DIS-COUNT" FROM "PUBLISHED" ARABIAN PRICE.

4. SOURCE SAID HE UNDERSTOOD PURPOSE OF NEW US TAX WAS TO FORCE INTERNAL PRICE INCREASE AND REDUCTION OF CONSUMPTION. HE DOUBTED THAT OIL COMPANIES COULD FORCE ARABS TO ABSORB NEW TAX. HE ASKED WHETHER, IN VIEW OF HEAVY DIS-COUNT OIL BROKERS WERE NOW UNANIMOUSLY DEMANDING, YPFB'S OIL COULD NOT BE SOLD DIRECTLY TO USERS IN US, BY-PASSING BROKERS.

5. COMMENT. IF SITUATION IS AS DESCRIBED BY THIS AUTHORITATIVE YPFB SOURCE, NEW TAX COULD HAVE EXTREMELY ADVERSE DIRECT IMPACT ON BOLIVIAN OIL EARNINGS WHILE LEAVING ARAB OIL EARNINGS VIRTUALLY UNTOUCHED BY ANY DIRECT EFFECT AND PERHAPS BY INDIRECT EFFECTS. WHILE WE REALIZE ANNOUNCED PURPOSE OF TAX IS TO DRIVE US. CONSUMPTION DOWN AND THAT ANOTHER PURPOSE MAY BE TO DRIVE OIL IMPORT PRICE DOWN, WE BELIEVE COMPARISON OF EFFECT ON BOLIVIA'S INCOME TO THAT ON INCOME OF THE BIG OIL EXPORTERS MAY GIVE RISE TO A CONSIDERABLE BILATERAL RELATIONS PROBLEM. BOLIVIAN AUCTION PRICE IS NORMALLY SET BY US OIL BROKERS. AUCTION PRICE IN TURN DETERMINES PRICE BOLIVIA CHARGES ITS OTHER BUYERS, MAINLY ARGENTINA, CHILE, PERU, BRAZIL AND PARAGUAY. PRICE OF US \$10.00 ER BARREL WOULD REDUCE BOLIVIA'S OIL EARNINGS BY ABOUT US \$53 MILLION FROM 1974 ESTIMATED EARNINGS AND TURN BOLIVIA'S 1975 BALANCE OF PAYMENTS PROSPECTS FROM NEAR BALANCE TO A US \$30 MILLION TO US \$60 MILLION DEFICIT. CONFIDENTIAL

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PAGE 03 LA PAZ 00779 312201Z

THIS OUTLOOK IS ALSO DIMMED BY PROSPECTIVE DECLINE IN VOLUME OF OIL EXPORTS IN 1975 WHICH MIGHT FURTHER REDUCE EARNINGS BY ABOUT US \$10 MILLION.

6. ACTION REQUESTED: (A) PROVIDE EMBASSY WITH ASSESSMENT AS TO WHETHER DIRECT EFFECT NEW US OIL IMPORT TAX WILL LEAVE ARABIAN LIGHT OIL PRICE RELATIVELY UNAFFECTED IN 1975. (B) PROVIDE EMBASSY WITH GUIDANCE ON ASSISTING YPFB TO MAKE

DIRECT CONNECTIONS WITH OIL USERS IN US IN VIEW OF TACTICS  
BEING EMPLOYED BY BROKERS IN MAKING FALSE BIDS (REFTEL) AND  
IN APPARENTLY ACTING TOGETHER TO FORCE YPFB ABSORPTION  
OF NEW US TAX.  
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## Message Attributes

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